

11-663961

6 AUG 1959

*Handwritten: 11-663961*  
Mr. Leo Cherne, Executive Director  
The Research Institute of America, Inc.  
500 Fifth Avenue  
New York 17, N. Y.

Dear Leo:

I very much appreciate your letter of  
July 31 forwarding for my personal attention  
the Institute's urgent report on Cuba.

I have read it over with a great deal of  
interest and have sent it on to some of our  
experts here for their information.

Sincerely,

**SIGNED**

Allen D. Dulles  
Director

STAT

O/DCI/   recd 4 Aug 59

**Distribution:**

Orig - Addressee  
1 - DCI  
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EXECUTIVE SECRET

410544

MEMORANDUM FOR: Mr. Dulles

After you have noted I will send this on to WH Division. Another copy of this report has already been sent to the DD/I.

FMC *gr*

4 August 1959  
(DATE)

FORM NO. 101 REPLACES FORM 10-101  
1 AUG 54 WHICH MAY BE USED.

(47)

*Leo Cherne*

*Executive Director  
The Research Institute of America, Inc.  
589 Fifth Avenue, New York 17, N.Y.*

June 6, 1956

The Honorable Allen W. Dulles  
Director, Central Intelligence Agency  
2430 E Street, N.W.  
Washington, D.C.

Dear Mr. Dulles:

I can't tell you how much I appreciated the opportunity to talk with you during an interval in which you were obviously (I suspect, as always) terribly busy.

I am enclosing a letter to the President with reference to one of the matters we discussed and also a special report of the Research Institute which you may have already seen.

For your information the Board of Directors of the I.R.C. has been enlarged very recently and now includes new Board members, Herman Steinkraus, Joseph Mankiewicz, Mrs. Ellen Lehman McCluskey, Claiborne Pell and Allen Grover. I wish that the presence of this additional strength promised a solution to our present acute financial need. Unfortunately, almost the contrary is likely to be the case. Their joining us had already involved the decision to increase certain aspects of our functioning.

We are deeply concerned at the moment with the plight of the escapees in  If their fate proves to be in jeopardy, I know that the I.R.C. will want to do something helpful in this situation, but none of us is yet clear about the course of action which may prove effective. Any guidance would indeed be welcome.

STAT

With my warmest personal wishes,

Sincerely,

LC:ck

June 5, 1956

The President  
The White House  
Washington 25, D.C.

My dear Mr. President:

Some months ago, you urged Congress to amend the Immigration Laws to provide sanctuary for those who risked their lives in escaping from the Iron Curtain. Unfortunately, your recommendations have not yet produced the quick action you desire.

There is now new reason for urgency in seeking the legislation you proposed. The Donovan Commission of the International Rescue Committee has revealed the sinister, well-planned, lavishly financed program of the Soviet Union to induce defection. The evidence we collected shows that escapees consider our Immigration Laws a most important actual and psychological barrier to their acceptance by us.

Your statements and the actions taken by various government agencies at your instigation during recent weeks have helped the morale of the refugees. But enactment of your proposals would be the most effective step we could take to defeat Russia's defection campaign.

In view of the data we now have about Russian pressure to win back the refugees, I wonder whether this might not be the moment for you to lay an earnest appeal for emergency action before the Congress? Our legislators, and the people, have learned what Russia is attempting to do with the refugees. I believe bi-partisan unity would be the response to a call for legislative action from you as President.

May I use this opportunity to express my appreciation for the leadership you have given in arousing American support for the escapees who reside among us.

Yours respectfully,

Leo Cherne  
Chairman

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these underdeveloped nations cannot yet be expected to respond to the ideological appeal of Western democracies over the authoritarian call of the Russians. Ignorance abroad is a major Soviet asset, which they compound with their propaganda. As an illustration, India's first public opinion poll in West Bengal showed 31% thinking the U.S. was "willfully preparing for war" and only 2% thinking the Soviet was preparing.

7. *Is time on the Kremlin's side?* The Russians have reason to believe that the longer the current situation lasts, the more tempted people in many countries will be to accommodate themselves to a pattern that favors the Soviet. This trend has already started in Asia. Cambodia has broken her ties with the U. S. on the assumption that Red China's star is ascending. Great Britain has written off Formosa on the assumption that Chiang-Kai-Shek can't win. Even Pakistan, which the U. S. has helped at the price of increased Indian hostility, is interested in deals with Russia. Trade paves the way to political accommodation. Unless we can counter this trend, the danger is that our allies will drift into neutralism, and the neutrals will drift into a pro-Soviet orientation.

Washington and the free world are not without resources to oppose these challenges successfully. We're still far out front as an economic power; we have no designs on the well-being of other nations;

we do not seek to impose our ideology on Asians.

These assets have not yet been brought to bear effectively in the war of resistance to Communist domination. Internal political considerations, party and regional interests, particular industry needs, have so far prevented a consistent national policy. Whether we can close ranks and intensify our resistance on a more organized basis is the fundamental challenge of our time, it is now clear.

8. *Can the U. S. take the lead?* The basis for a potentially powerful counteroffensive is sketched out in Bertram D. Wolfe's *Six Keys to the Soviet System*, published this month. Wolfe points out that we, not the Communists, are today the advocates of agrarian reform. We, not they, are the advocates of a genuine peace, with disarmament under full safeguards and controls. We, not they, are the champions of the rights and freedom of the worker — freedom to move, to change jobs, to organize, to assemble, to elect and control his own officials, to strike. It is we, not they, who support the most powerful loyalty in the modern world — nationalism — and who are the advocates of self-determination. "In short," says Wolfe, "the main weapons that the Bolsheviks thought they could use in the early days against the rest of the world — nationalism, labor rights, agrarian reform, abolition of poverty, an economy of abundance, anti-imperialism — are now in our hands."

It is up to us to use them.



SPECIAL REPORT TO MEMBERS

## Toughest Challenge Yet in New Soviet Strategy

These are the hard facts: economic and military strength of the Moscow-directed one-third of the globe is rising steadily . . . The new Soviet leaders' domestic and foreign policies are far more subtle and shrewd than those of Stalin . . . Most important, the new Soviet policies have been astonishingly successful . . . It adds up to this: right now, we and our allies are losing the battle against world Communism.

For a bird's eye view of how Soviet strategy threatens U.S. supply of key raw materials today, take a look at the map on pages 6 and 7 of this Report. Then, ask yourself these questions:

How did this happen? Which events are really responsible for this state of affairs? Do we know what the Soviet Union plans to do in the coming months? Is there still time to thwart the Kremlin's plans? How can the West prevent the present military stalemate from becoming a checkmate?

Here are the conclusions of the Research Institute's experts who, with Harry Schwartz, the New York Times specialist on Russia, have been closely following developments behind the Iron Curtain — the shifting events which culminated in the new policy statements proclaimed at the 20th Communist Party Congress in Moscow this February . . .

### The Soviet Leadership

When Stalin ruled the Soviet empire with an iron fist, Khrushchev and Bulganin helped execute his policies — and his opponents. When the aging Stalin conducted Soviet foreign policy in full battle dress, Khrushchev and Bulganin were among his toughest lieutenants. But Stalin's rigidities during his last years resulted in strong anti-Communist counter-moves by the West. So, in order to weaken Western resistance to the Communist advance, the new Soviet leaders have gone back to the more flexible — and

effective — policies that Stalin himself used in the 1930's, while pretending to repudiate Stalin's policies and actually destroying his place in Soviet mythology.

Chalking up Communist gains in India, Indonesia, Afghanistan, and elsewhere, the new Soviet leaders have also largely resolved the domestic problem of Stalin's succession, and they have done so without wrecking the Stalinist system and without an excess of bloodshed and purges. Only one of the original contenders for Stalin's throne, Beria, had to be shot, and only two, Malenkov and Molotov, had to be humiliated publicly.

Although a muted struggle for power in the Soviet hierarchy must continue until all possible opposition to a single dictator has been silenced, for all practical purposes Nikita S. Khrushchev — First Secretary of the Communist Party — is Stalin's successor today. (This came as no surprise to Members of the Research Institute; as long as three years ago our Reports advised that Khrushchev was the man to watch.)

Despite the talk in Moscow about "collective leadership", the fact is that Khrushchev controls the reins of power. He alone in the Soviet Union today stands above criticism and need not acknowledge past mistakes (all errors can now be blamed on Stalin and Beria, who are safely dead), even though at least one colossal Khrushchev boner — the enor-

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mous program to plow and plant 75,000,000 acres of grain in arid parts of Siberia—proved to be an expensive folly last year.

Khrushchev, like Stalin in the early days, is busy accruing personal prestige and downgrading possible opponents while putting his own followers into positions of power. He does not yet have the enormous prestige that Stalin enjoyed after he led Russia to victory against Hitler. Khrushchev may not have the time to win a comparable position of absolute supremacy—he is over 60, Stalin was well under 50 when control slipped from Lenin's dying hands. Khrushchev, unlike Stalin, has to listen to—even if not heed—the members of his "team" before making decisions. But Khrushchev has the tremendous advantage of Stalin's experience and can therefore avoid the foreign policy blunders of his predecessor while working for absolute dictatorial control.

Khrushchev—unlike Stalin—must take notice of the interests of key groups who control great power levers in the state, particularly the army. The unprecedented elevation of Marshal Zhukov to the top dozen of Soviet rulers is the most vivid proof. Stalin was far too aware of the possibility of a military coup d'état to give such stature to a military man. Today, the promotion of Zhukov to a high party post assures solid military support of the regime; also, some of Zhukov's immense popularity, won in wartime, now rubs off on the ruling clique. But Zhukov's promotion puts him too close to the throne for Khrushchev's comfort—if anything goes wrong.

**Khrushchev—Limited Dictator**

To sum up: Khrushchev rules Russia today, but only with the advice and consent of his immediate colleagues in the Presidium of the Central Committee of the Communist Party. The members of this body give every evidence of understanding that an out-and-out battle among them could destroy the whole Soviet power position as well as endanger their own lives. There are still rivalries and disagreements, but these are now being subordinated to the task of increasing world-wide Communist power.

Should Khrushchev die, should Soviet foreign policy be forced to suffer a major setback, the quiescent struggle for Stalin's mantle could flare up again, as it did in the spring of 1953. But for the time being, there is stability—a tremendous asset to the Soviet State.

**Within Russia: Less Unrest**

One of the great assets of the West after World War II was the restlessness and resentment of the staunchest anti-Communists of all: the people of Russia who live under the boot of totalitarianism. A Western policy of strength kept alive the spark of freedom in the Russian people. That spark may now be going out because of the inertia of the West. Should it expire, the West will have lost its army of allies who live on the enemy's home ground.

Why has this happened? First, at Geneva last summer, whatever the intent of the Western leaders, the impression was given to the whole world, including the people behind the Iron Curtain, that we actually believed in the possibility that the Russian leaders wanted to coexist with us. The people most discouraged by the spurious spirit of Geneva were the anti-Communists behind the Russian curtain.

Second, Stalin's successors have realized that accumulated pressure under a sewer cover can blow the lid sky high. To lessen the pressure under their regime, they have gone part of the way toward meeting some of the basic grievances of the Russian people . . .

The new leaders have sharply increased peasants' incomes by raising prices paid for farm produce, including grain, livestock products, potatoes, etc. They have increased the supply of food and consumer goods for the population, going so far even as to buy large quantities of meat and butter abroad to make up for deficient home production. They have given greater priority to housing construction. And they have cut the average work week down to 46 hours, with further reduction promised.

They have curbed the power of the secret police and executed some of the highest police leaders. They have loosened the shackles on the intellectuals so that writers can write somewhat more freely and scientists can communicate more easily with foreign scientists.

They have promised a number of major additional concessions in the next year or two: the end of tuition fees in high schools and colleges, higher pay for the lowest paid workers, higher pensions for the millions of aged pensioners whose government payments now are so completely inadequate that even men and women of 75 and 80 must work to avoid starvation.

The upper ranks of the Soviet bureaucracy have been given a device to permit them to pass on their

sooner: if and when the Russian workers' standard of living can be raised above that of the French and Italian working class. Our task really is to prevent even that much of a narrowing of the gap between the West and the Soviets.

Historically, the main challenge may well be whether or not we can continue to expand our own economy and those of our Western allies, maintain the well-being of business, provide new jobs for a growing population, increase investments for new industries and raise purchasing power to absorb more consumer goods.

3. **Foreign trade and investment.** We are already engaged in competition for trade ties with other countries. Foreign aid give-aways are not a sufficient answer to this challenge. Postwar gifts aimed at emergency stabilization did their job in preventing Communist capture of depressed and disillusioned countries. But for the long haul, the pattern will have to be "trade not aid".

Here the challenge is who can offer the best terms, who can absorb more of the products that the underdeveloped countries want to sell—the state economy of Russia or the free economy of the West?

The Russians are free to use their maneuverability as a world weapon. Part of our problem is that domestic investment may well be more profitable and involve less risk during the critical years than investment in the underdeveloped areas. Look for increased Washington action along the lines of Point Four to meet the challenge of Russian bids. Also expect some increased government regulation aimed at restraining American businessmen from competing with the economic interests of countries we are wooing, especially in the Middle East and Asia. Current legal requirements like the Buy-American Act and provisions for shipping foreign-aid goods in American bottoms may go by the board. In general, disparities between private business practices and the policies of the State Department will come in for a strong scrutiny—and this will be true regardless of which political party is in power.

4. **Can Russia choke us off from vital raw materials?** Clearer recognition of this Soviet policy (as pictured on the map in the center fold of this Report) will bring a variety of response from the U. S. More attention will be given to stockpiling and to the development of substitute materials. But the main test will continue to be whether Americans are sufficiently adept at the international game to

keep our lifelines open in the face of a five-fold pincer action by the Russians:

. . . Guerilla warfare, as in the jungles of Malaya, whose tin and rubber we need.

. . . Bribery, with gold or guns, as in the Middle East where oil is the prize.

. . . Support of nationalist aspirations, as in North Africa, whose territory provides important military bases or impinges on commercial lanes for the West.

. . . Endorsement of territorial claims—for example, to Kashmir and Goa, in the case of India which is the source of most of our manganese.

. . . Political penetration through neutralism or popular front governments—techniques that have been cultivated in France, Italy, Indonesia, Ceylon, etc.

5. **The need for domestic unity.** The Russians are not abandoning any of their old weapons merely because they have devised new ones. They will continue to use the fifth column tactics of espionage and infiltration into government agencies, unions, political parties, church groups, fraternal organizations, etc. The popular front tactic that proved so successful in the Thirties has been dusted off again. Inside the U. S., the Communists will seek every opportunity to enlarge and exploit new internal tensions like those in the South over integration. Part of the new challenge is whether or not our domestic disputes can be resolved quickly and with a minimum of violence.

6. **Who will win the psychological war?** The Kremlin's effort now is to identify Russians as blood-brothers of the Asians. They are utilizing history effectively—identifying the West with colonialism; reminding Asians that Russia only recently emerged from the status of an underdeveloped nation herself; stressing the U. S. exclusion of immigration under the McCarran Act, etc. These are keyed to immediate pressures felt by the Asians.

We have valid and persuasive answers. And yet, we have labored under a real handicap, and continue to do so. Washington's psychological warfare has emphasized appeals that are valued in our culture—freedom, respect for the individual, self-government, competition. All of these have—or will some day have—appeal. But we must adapt to the fact that the ambitions and needs of the people we are appealing to today are more basic and urgent. They are of necessity material. And, conditioned by centuries of authoritarian regimes, most of

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lar morale as well as throw more fuel on fires of domestic inflation. The pledge to raise low wage rates and low pensions will have to be fulfilled soon and will add appreciably to the gap between consumer demand and available goods.

3. The entire system of wages and salaries must be revised in order to raise work norms and to increase the pressure on workers and executives to do a good job. But any such wholesale revision in the wage and salary structure inevitably means stepping on many toes. Kaganovich has already said the changes must be made slowly, a sure tip-off of the Soviet leaders' fears on the matter.

4. The Chinese Communists have recently socialized their industry and trade and collectivized their agriculture with a speed that is without parallel, and so far with only relatively minor resistance. But as the full implications of this socialization are felt by the people affected, resistance may rise sharply.

Peiping's demands on its people are sharpening as industrialization and its capital requirements are speeded up. There could be internal difficulties in China which would cause Peiping to turn to Moscow for more help — appeals that might well come at a time when Moscow's own resources are strained. As the Chinese hear about Soviet offers of assistance all over the world, some of them at least must wonder why there isn't more generous aid for China.

5. One weakness, not to be discounted, is the Kremlin's adherence to Communist dogma. For instance, after the 20th Party Congress, Khrushchev announced his intention of proceeding with the abolition of personal farm plots, even though these have proved to be much more productive per acre than the collective farms.

Here, realism is being ditched for dogma — a step which must be chalked up as a weakness of the system.

## The Challenges to the U. S.

On balance, it's difficult to be encouraging about the foreseeable future, even when the weaknesses of the Communist world are taken into account. However, the free world's great assets of wealth and freedom are still as important as ever. If they have recently been less effective than in the past, it is because our policy has not used our assets as ruthlessly, cleverly and with the same willingness to sacrifice as the Communists have used theirs. To a large extent, the outcome will depend on the kind of policy Washington and its allies formulate in response to a whole range of sharpened challenges from the Kremlin . . .

1. **Who will win the educational race?** The Russians expect to overtake our economic superiority by producing more engineers, technicians, and scientists. This manpower challenge is already near the point of crisis. With a current shortage of engineers, we find fewer high schools teaching mathematics, physics, etc., so that fewer graduates are eligible for scientific study in the colleges. The vicious cycle finds fewer teachers available because the qualified men have found it more profitable to spend their time in industry.

The Russians, on the other hand, are concentrating their state-controlled educational system on producing technicians, to the neglect of other studies.

The importance of their lead is sometimes exaggerated. Too many Russian technicians spend their time at paper work, and thus largely waste their training. Also, Russian technicians tend to overspecialize, thus making themselves obsolete when retooling and conversion are required. Nevertheless, Russian gains in the training of technicians make our own deficiencies seem appalling. In the immediate future, American businessmen will be asked by Washington to reverse the tide by releasing some of their best brains to instruct a new generation of scientists and technicians.

2. **Who will win the economic race?** We must resist the temptation to scoff at Russian hopes that their production will ever outstrip ours. There are clear warnings, both in the past and in the present:

. . . The Russian hopes for a collapse of the U. S. economy are doomed to be disappointed. And yet, even a series of recessions, slowing down our growth, could be an invaluable aid to the Soviets during these next 10 years. The extent to which Communist plans have been realized in recent years definitely means that they can count on further sharp advances.

. . . It may never become necessary for the Russians to fully match U. S. economic strength. The moment of historic peril will actually come much

superior status to their children. This is the system of boarding schools — Soviet Etons and Harrows — which Khrushchev announced will be set up to train the Soviet leaders of tomorrow.

An effort is being made to heal the deep wounds left by Stalin's purges of the 1930's. Many of the victims are to be rehabilitated, and where such rehabilitation is posthumous, suitable recompense will presumably be made to the victims' surviving families. The sickening adulation of Stalin and the most obvious falsification of history are to be ended; at least, that is the promise.

All this adds up to a considerable revolution for a period of three years. It has not been accomplished without cost, including a substantial inflationary pressure which is causing Khrushchev great concern. The economic concessions — which still leave the Soviet standard of living and the degree of freedom in the Soviet Union far from satisfactory to its own people — have probably strengthened the regime at home on balance, but they raise the question of whether the population will not demand more. The problem will be particularly acute in the next few years when the Soviet leaders expect to be able to reduce high prices only slowly. A great deal depends on what the West will do to increase the internal pressures against the Red regime. Strong opposition to Soviet moves in Asia and the Middle East would help to reactivate a spirit of resistance inside the Iron Curtain.

## Red Military Strength

Stalin's successors have essentially ended American nuclear monopoly and created what is for all practical purposes a military stalemate. In the past three years they have produced powerful hydrogen bombs, and long distance jet bombers capable of delivering such bombs to American cities. They hint,

and possibly not without some justification, that they are ahead of the United States in developing long-range guided and ballistic missiles. These are historic accomplishments. They have fundamentally changed the world balance of power as against what it was when Stalin died in March, 1953. In these accomplishments lies much of the explanation for the Soviet leaders' present genuine confidence.

## Red Diplomacy Ascending

Stalin's successors have made deep inroads among the neutral nations of the world. Khrushchev and Bulganin's trip to India, Burma and Afghanistan raised Soviet prestige greatly in those countries. The swap of Czechoslovak arms for Egyptian cotton, plus the all-out Kremlin support for the Arab nations in their dispute with Israel, have greatly heightened Soviet influence throughout the strategic and oil-rich Middle East. Pakistan, a key link in the Free World chain of alliances in Asia, has been softened up by trade offers from Russia and sweet words from Communist China. Marshal Tito's regime in Yugoslavia, once clearly an ally of the free world because of Stalin's excommunication of Tito, has been nudged out of the Western camp closer to the Soviet bloc. The result of these and similar measures has been that the prestige of the West, particularly the U.S., has plummeted in many parts of the world while Moscow's and Peiping's influence has soared.

It is clear even from the brief recital above that we now face a much more dangerous and wily foe than we did in Stalin's last years. His successors, on his passing, took a penetrating look at the legacy he had left. They identified the weak spots in their positions at home and abroad, and took drastic action to revise their policy accordingly. All this has resulted in a new chapter of modern history to which Western policy has not adequately adjusted itself.

## The Communist Plans for the Future

At the 20th Communist Party Congress in Moscow in February, 1956, Khrushchev and Co. unveiled their plans for exploiting the new world situation for their own benefit. The long-range Communist strategy is now based on the following premises:

No major nuclear war is likely for the foreseeable future. This is the meaning of Khrushchev's new

dictum that there is no "fatal inevitability" of war. Russia intends to keep militarily strong, and its leaders do not exclude the possibility of little wars which might grow into big ones. Soviet leaders now base their plans on the assumption that a military stalemate exists between them and the free world, and that therefore, other weapons — political and

## TOUGHEST CHALLENGE YET IN NEW SOVIET STRATEGY

economic in the main—must be relied on to attain their goals.

## Soviet Progress to Date

The economic power of the Soviet Bloc will grow very rapidly during the foreseeable future, increasing the Communist potential for victory. This rapid growth is already exerting a tremendous magnetic effect upon the underdeveloped countries now searching for quick roads to industrialization. Communist influence will grow in the underdeveloped countries if the Communist nations can show the ability to increase production, raise standards of living, health and education, and to modernize formerly backward areas. You should know that particular importance is being attached to North Korea where, with great cooperation from other Communist countries, Moscow is trying to create a showpiece of economic recovery intended to contrast with inflation-ridden South Korea. Should the plan succeed, it could exercise tremendous influence over all Asia.

The Communist confidence in their ability to grow rapidly in the future is largely based on the bean-stalking of the Soviet economy in the past ten years. Perhaps the most dramatic evidence—though not entirely pertinent to the future—is the record of the Soviet production increase between 1945 and 1955 as shown below:

Commodity	Unit	1945	1955
Coal	million metric tons	149.3	390.1
Petroleum	million metric tons	19.4	70.7
Electricity	billion kilowatt-hours	43.2	170.2
Pig Iron	million metric tons	8.9	33.3
Steel	million metric tons	12.3	45.2
Cotton Cloth	billion meters	1.6	5.9
Leather Shoes	million pairs	64.5	297.4

The expansion shown in this table cannot be sustained since it was the result of very special conditions. It was easier to rebuild war damaged plants after 1945 than it is to build new ones from scratch. The Russians moved billions of dollars worth of machinery and raw materials from Eastern Europe and Manchuria to their own factories. The level of productivity in the early postwar years was so low that it was comparatively easy to raise it rapidly. Yet, even after allowance has been made for such special factors, it is clear that an impressive job of industrial reconstruction and expansion was accomplished in Russia this past decade.

## New Russian Economic Goals

The Soviet leadership fully realizes that their country has tremendous reserves of untapped raw materials, particularly in the area beyond the Urals. In the past few years they have found extensive deposits of iron ore, coal, petroleum, bauxite, rare metals, uranium and the like. The great rivers of Siberia have an enormous electric power potential. All these vast resources are scheduled to be exploited in the years immediately ahead. The final goal is not only to out-produce the United States but also to turn out more steel, coal, electricity and the like, per capita, than this country.

Of course, these ambitious goals are set in comparison with present United States output figures. They ignore the further expansion which will undoubtedly come in this country. However, even in these terms, the advances which Soviet leaders are seeking are impressive (same units as above):

		Soviet Russia		
		1955	1960	1965
U.S.A.	1955	Actual	Goal	Probable
Actual	Commodity	Actual	Goal	Goal*
448	Coal	390.1	593	700
332	Petroleum	70.7	135	200
623	Electricity	170.2	320	600
70.9	Pig Iron	33.3	53	70
106	Steel	45.2	68.3	90

The essential point of this table is that by 1965 Soviet leaders hope to come very close to the output levels now prevailing in the United States. This means that unless we can maintain an equal rate of expansion the gap between the two economies will have been narrowed significantly within these next 10 years.

Moreover, since the great bulk of Soviet production goes for capital equipment and arms—not for passenger cars and other consumer durable goods—they expect to surpass the United States in machinery output earlier than 1965. So far as armaments go, of course, the maintenance of a high level of preparedness will be far less burdensome on the Soviet economy when and if it produces 70-90 million tons of steel, than is true now.

Of course there is no certainty that the Soviet leaders will reach the indicated goals by 1960 and

\*Research Institute estimates based on Soviet statements.

parties of West Europe, except in Italy, have been among the most important anti-communist bulwarks.

Now Khrushchev has changed the line and is wooing the Socialists, inviting their leaders to Moscow, and loudly asserting that the important thing is the unity of all workers' parties. The immediate chief target is France, where the goal is the formation of a Communist-Socialist government which would take France out of NATO. But ultimately the campaign could have repercussions all over the world, from Japan to England—the Soviets hope—with leftist Socialists and Communists working together in far stronger force than the Communists could attain alone.

Some top Socialist leaders in Europe have already indicated they will not allow the wool to be pulled over their eyes. But there is less understanding of the true nature of Communism among the leaders of the new Asian countries, such as India, Burma, and Indonesia, who are primarily socialistic in their orientation. Communist assurances that how a nation becomes socialist is unimportant can be a potent force in bringing those countries closer to the Soviet Union. Addressing the British workers, the Soviet leaders take the position that past hostility to the Laborites was Beria's crime, and say in effect that Russia wants nothing more than a Labor Britain.

It should be noted that on this issue, the Soviet leaders have pretended to take a leaf from Tito's

book. Actually, the policy is Lenin's but Khrushchev knows that countries like India prefer to think it's Tito's, hence this expedient camouflage—made possible by the fact that Tito has been urging such proposals for a year or more.

## The New Psychological War

The desegregation crisis in the southern states has given the world Communist movement a giant propaganda handle which it has latched on to with its customary resourcefulness. Every new tension between Negroes and whites in the South is being publicized among the majority of the world's people who are colored. Needless to say, the extraordinary progress made by the Negro in the U. S. over the last 90 years and particularly in the most recent past, is virtually unknown among the nations being beset by Soviet propaganda. The result has already been a greater and greater hostility to the United States. To a lesser but still significant extent the similar struggle in South Africa is serving the Communist cause. And because the United States is a major buyer of South African uranium, diamonds, and other minerals, this country will be blamed more and more for not exerting economic pressure against the rulers of South Africa. The South African problem is a particularly potent propaganda weapon in India, because Indian natives of S. A. are among the victims of South Africa's policies.

## Soviet Problems and Weaknesses

The picture painted above is not an encouraging one, but it is offset to some extent by the difficulties faced by the Communist leaders . . .

1. Soviet agriculture is still very sick. Khrushchev has staked his prestige on being able to just about double Soviet food production by 1960 through his virgin lands wheat program, his corn-hog program and other measures. Most of his program failed last year, but an extraordinarily good harvest in the Ukraine saved the day. He is now gambling that weather in Siberia will permit his virgin lands program to begin producing results this year. Another repetition of last year's drought there, plus a poorer harvest in the Ukraine, could shake even his position. But there is no foreseeable danger of widespread starvation. The Soviet Union has enough

bread; what its people want are more meat and dairy products for a better quality diet.

2. Khrushchev's ambitious industrialization program for the next five years, plus his aid commitments to China, Eastern Europe, and such countries as India, are likely to strain the Soviet economy greatly. A tremendous capital construction program must be carried out in the now unpopulated wastes of Siberia to achieve the production goals. Khrushchev is counting on major productivity gains, but he may soon find he cannot do all the things his program calls for and that he will have to cut back on some elements of his economic plans. Traditionally in such a situation the Communists have cut down consumer goods and investment in agriculture. But to do so again would solve serious problems of people.



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## RESEARCH INSTITUTE

The targets and pattern of this intensified Communist onslaught on the sources of our strategic raw materials throughout the world are dramatically illustrated in the map which you will find in the centerfold (pages 6 and 7) of this Report.

## The New Economic War

Economic weapons to be used against us include: . . . Communist offers of greatly increased trade to countries which drop the embargo on strategic exports to the Communist Bloc.

. . . Offers of Soviet aid in industrialization—in the form of technicians, know-how and capital goods in return for domestic agricultural and raw material surpluses. Available, too, will be Communist loans on easy terms with long repayment periods and interest at 2% or less. Atomic energy will spearhead this aspect of the Soviet offensive. Reactors, uranium and atomic know-how will be offered to every underdeveloped country that will play ball with Moscow. Egypt and Yugoslavia have already accepted such offers.

No country is going to get Soviet aid as charity. Along with the technicians will come the ready crew of agents, spies and propagandists. Every gift grant will be tied to Soviet strategy. The difference is that the strings on Soviet aid are unobtrusive while the reasons for United States aid are ventilated in the halls of Congress, in the columns of the press and in the red-taped chambers of bureaucracy. Moreover, we often don't get legitimate credit for our aid, while local Communists in recipient countries make sure that every incoming Soviet brick sounds like a housing development.

. . . Offers of stable markets in Communist areas at prices guaranteed for long terms to countries having particularly valuable raw materials. This tactic will be particularly attractive to underdeveloped countries now enjoying the high prices of the present boom period, but fearful of a possible bust around the corner.

. . . Where politically desirable, and taking the other extreme, the Communists will be ready to dump other key commodities at prices well below comparable Western levels. Cost of production will be ignored in such dumping where the political prize is important enough.

. . . Disorganization of some international markets which is likely to result from American disposal of some agricultural surpluses—cotton almost im-

mediately—will be used by the Communists to cement economic bonds with countries hurt by the American program. The Communist maneuvers with respect to Egyptian cotton and Burmese rice already illustrate these possibilities.

In all this, remember the great Communist advantage: the State has a free hand in disposing of its resources. Neither the necessity of making a profit nor the domestic needs of the people hamper the Kremlin's ability to engage in free-wheeling economic warfare. In the past, the Soviet Union promised much, delivered little. But now we can expect fewer token deliveries, fewer empty promises. Instead, there will be genuine offers of long-term aid—with completion of delivery contingent on the continuation of a favorable attitude towards the Soviet Union, thus tying long-term apron strings to the U.S.S.R. Moscow puts such high priority on the political gains it expects to win from these tactics, that it will make delivery even at great cost. But Soviet resources are not limitless, and the magnitude of what the Communists can do in this direction will grow only as their domestic production increases. Any sharp setback in their domestic economies—such as a major crop failure—would necessarily affect this campaign. But for the time being the outlook is for an indefinite and rapid expansion of this kind of economic warfare—starting, to be sure, from a very low present level of foreign trade and assistance.

## The New Political War

At the 20th Party Congress, Khrushchev acknowledged that: **there may be different roads to socialism. Rather than all countries being bound by the Soviet pattern, Moscow now calls for Communist united fronts with all leftists, Socialists, and the like all over the world.**

This is not a new line, as some suppose, but the reactivation of one of Lenin's early policies. It was also used effectively by the Stalin regime during the "popular front" period of the late 1930's. For the most part, however, under Stalin even the slightest deviation from his line was denounced and severely punished. Notably, the powerful Socialist parties of Western Europe were denounced as "fascists," "agents of the capitalists," etc., and where the Communists seized power in Eastern Europe, Socialists were among the first victims murdered or imprisoned. The result has been that this past decade the Socialist

1965. They are counting on a substantial increase in productivity through the widespread introduction of automation, and on an ability to continue giving heavy industry a higher priority than consumer goods. The odds are that rapid Soviet economic growth will continue.

The Soviet leaders' perspectives go beyond their own country to the Communist Bloc as a whole—a Bloc which now embraces over one-third of mankind. For the longer pull, Moscow hopes that Communist China will become one of the world's great economic powers. Already the addition to Communist power provided by Eastern Europe and Communist Asia is not negligible, and the Communists intend it shall grow as the following table shows (same units as above):

USA, Britain France, W. Germ.		Total Soviet Bloc		Total Soviet Bloc	
1955 Actual	Commodity	1955 Actual*	1960 Goal*	1955 Actual*	1960 Goal*
862.5	Coal	830	1,255		
336	Petroleum	85	163		
823	Electricity	240	425		
160.2	Steel	60	91		

## Soviet Strategy Against the West

The Communist leaders believe that the phenomenal economic progress of the free world, particularly the U. S., is nearing its end, and a major capitalist depression is in the offing. Khrushchev ended his analysis of the current state of world capitalism with the declaration that "capitalism is steadily moving towards new economic and social upheavals." If the difficulties they hope for come, the Soviet Union and its allies will know full well how to take advantage of the economic, social, and political disorganization they would produce.

It does not matter that Soviet hopes for a full-scale depression are doomed to disappointment—at least as far as the United States is concerned. Several of the economies of Western Europe continue to show a slower rate of economic progress; even more significant is the fact that they are far more vulnerable to the possibility of recession than is the United States. And Russia is no longer betting blindly on the inevitability of an economic collapse in the West.

Soviet leaders now regret Stalin's earlier adventures—such as the Korean War—which forced

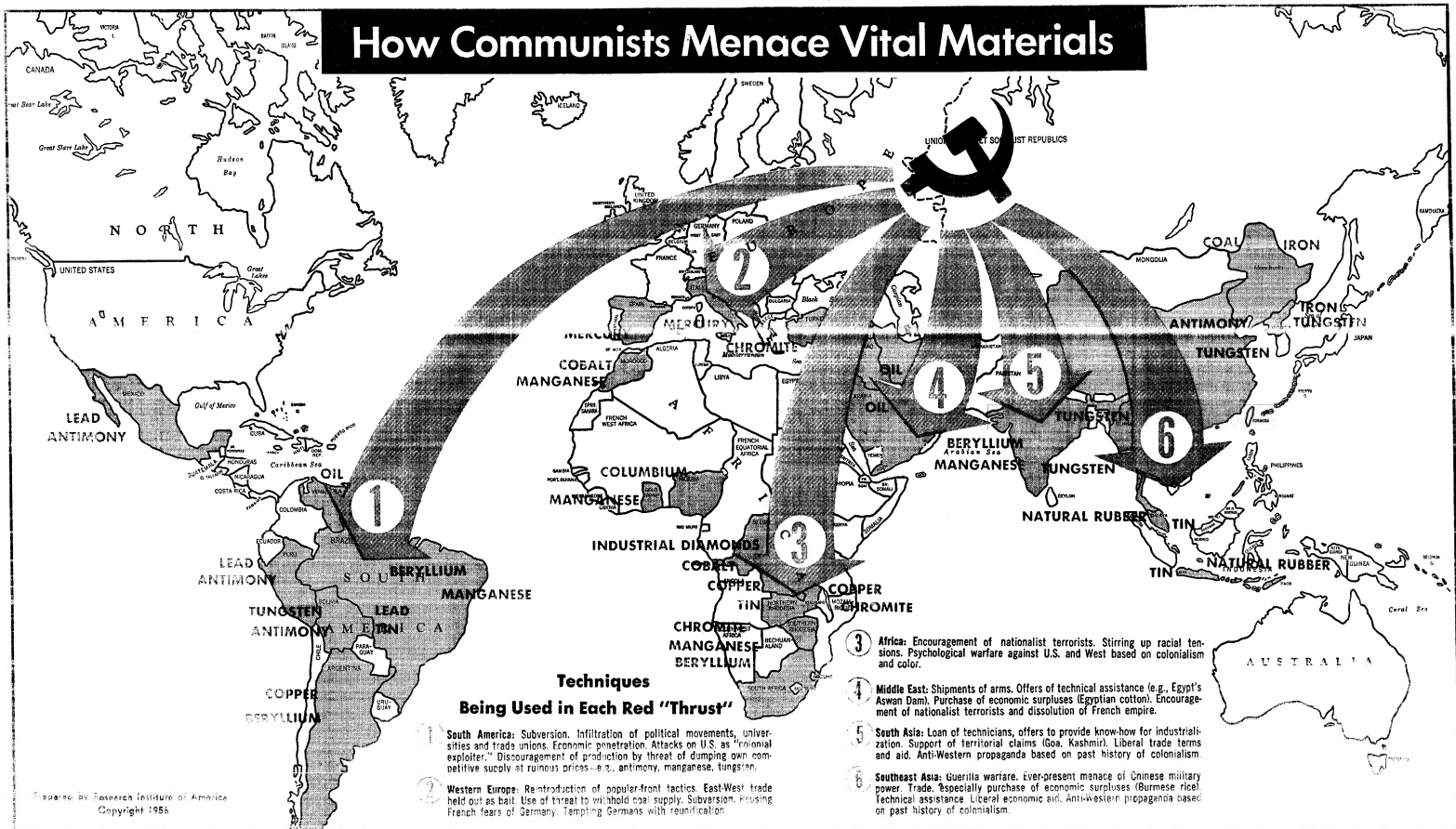
\*Research Institute estimates.

the West to rearm. This rearmament, they have now come to believe, is the main reason why the depression has not come about. In part, the Soviet campaign for disarmament now is motivated by the belief that any substantial decline of Western arms production could really mean a collapse of Western economies; at the same time they argue publicly that for them a decline in arms would be helpful in freeing resources for developing their economy.

The result of this caution is that Communist theorists have decided that world capitalism—meaning the United States and Western Europe—has a fatal weakness aside from the possibility of a full-scale depression. **This is the United States' and Western dependence on imported raw materials from Asia, Africa, and South America.** A writer in *Pravda* recently pointed out that well over half of all the free world's reserves of such vital resources as oil, iron ore, manganese, chrome, tin, diamonds, cobalt, copper, bauxite, uranium, lithium, graphite, natural rubber, and other major raw materials is to be found in the underdeveloped countries. In the Communist view, any tactic which tends to cut the United States and Western Europe off from these raw materials sources strikes at the real foundations of Western strength. Also, the narrower the raw material base available to the Western world the narrower the market for the West's manufactured products and the more intense the rivalries of Western countries for the available sources and markets. It is from this reasoning that the current, and so far effective, Communist propaganda and aid campaign has proceeded in the underdeveloped countries.

On the basis of all these factors, Communist leaders now believe that, by using a varied series of tactics, they can conquer world capitalism without exposing themselves unduly to the risk of an all-out nuclear war. With greatly expanded resources at their disposal, the Communists now are ready to play for the long pull as they have never done before, taking temporary disadvantages in stride if that be necessary. Economic, psychological and political warfare—all closely coordinated—will be stepped up. The objective will be to wreck all Western political and military alliances, weaken or destroy political and economic links among free nations, incite wars or near-wars wherever possible, and create Communist or Communist-dominated governments wherever possible.

## How Communists Menace Vital Materials



*Leo Cherne*



SPECIAL DELIVERY

*Executive Director  
The Research Institute of America, Inc.  
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January 8, 1959

Hon. Allen W. Dulles, Director  
Central Intelligence Agency  
2430 E Street, N.W.  
Washington, D.C.


Dear Mr. Dulles:

Knowing the depth of your concern with the challenges posed by Moscow and Peiping, I am sending you the enclosed Research Institute assessment of the new economic programs now being pressed by both Communist centers.

We believe that this will be the most complete appraisal of the Communist targets which will be available to the American public although, of course, there is confidential government data which in certain respects must exceed the data that is incorporated in this study.

Because we at the Research Institute feel the weight of this responsibility very heavily, we are most eager to have any judgments and opinions you may feel free to make before we put the study in final form. In view of the urgency of this matter, I am hurrying the first uncorrected galleys to you without the graphs and map of Soviet economic aggression which will accompany the completed study.

If you can find the time to give us your valued comment on these findings, the Research Institute and its Executive Members who are to receive this report will be deeply in your debt.

Sincerely yours, 

LC:ck